



# Developing Successful RAD Conversions of Assistance

August 23, 2012



# TODAY'S FOCUS

## Developing Successful RAD Conversions of Assistance

- What PHAs, Owners, & Residents Have Been Asking About?
  - Public Housing
  - Mod Rehab
  - Rent Supp/RAP
- Financing Transactions
  - Debt
    - FHA—including new FHA-LIHTC Pilot
    - Conventional & Subordinate
- Equity
  - 4% LIHTCs
  - 9% LIHTCs
- Q & A





# TODAY'S M-O

## Welcome to In-Person & Webcast Audiences

### RAD Slide Deck Overview

- Q&A to clarify along the way

### Moderated Discussion with Q&A





# TODAY'S PANEL



## Lenders & Investors

- Catherine Pharis – Managing Director, Wells Fargo
- Emily Phillips – Underwriter, Enterprise Community Investments

## HUD RAD Team

- Greg Byrne – PIH
- Diane Thompson – PIH
- Margaret Salazar – OMFP
- Lynn Wehrli – OAHP
- Patrick Costigan – Office of the Secretary



# CURRENT CHALLENGES

## Public Housing

- Capital repair needs in excess of \$25.6B across portfolio, or \$23,365/unit
- Section 9 funding platform unreliable (pro-rations, cuts), prohibitive in accessing private debt and equity
- Losing 10,000-15,000 hard units/year

## Section 8 Moderate Rehabilitation (Mod Rehab)

- Cannot renew on terms needed to secure financing

## Rent Supplement (Rent Supp) & Rental Assistance Payment (RAP)

- No option to renew when contracts expire





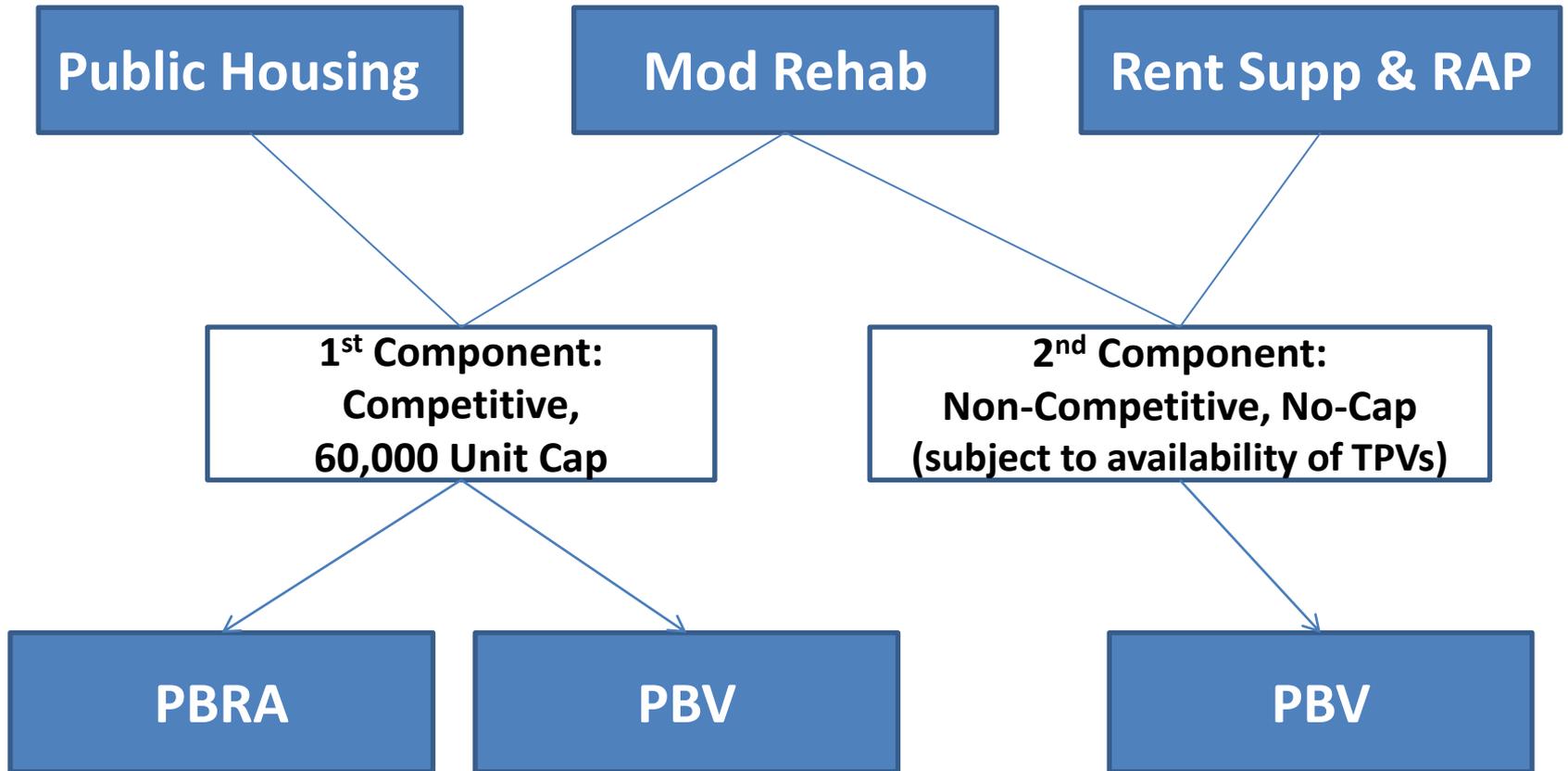
# KEY RAD GOALS



- **Build on the proven Section 8 platform**
- **Leverage private capital to preserve assets**
- **Offer residents greater choice and mobility**



# RAD CONVERSION ELIGIBILITY





# 1<sup>ST</sup> COMPONENT



- Public Housing & Mod Rehab
- Can compete to convert assistance to
  - Project-Based Rental Assistance (PBRA) or
  - Project-Based Vouchers (PBV)
- Cap of 60,000 units (applications must be received by 9/30/2015)
- Convert at current funding only
- Choice-Mobility, with limited exemptions
- Extensive waiver authority to facilitate conversion
- Initial application period: September 24 – October 24, 2012



## 2<sup>ND</sup> COMPONENT



- Mod Rehab, Rent Supp, & RAP
- Upon contract termination/expiration, convert Tenant Protection Vouchers (TPVs) to PBVs
- No cap, but subject to availability of TPVs
- Choice-Mobility requirement per PBV program rules
- Limited waiver authority to facilitate conversion
- Prospective conversion authority through 9/30/2013
- Retroactive conversion authority back to 10/1/2006 (convert by 9/30/2013)



# OVERVIEW



# Q & A



# WHAT PHAS HAVE BEEN ASKING ABOUT?

## 1<sup>st</sup> or Competitive Component of RAD

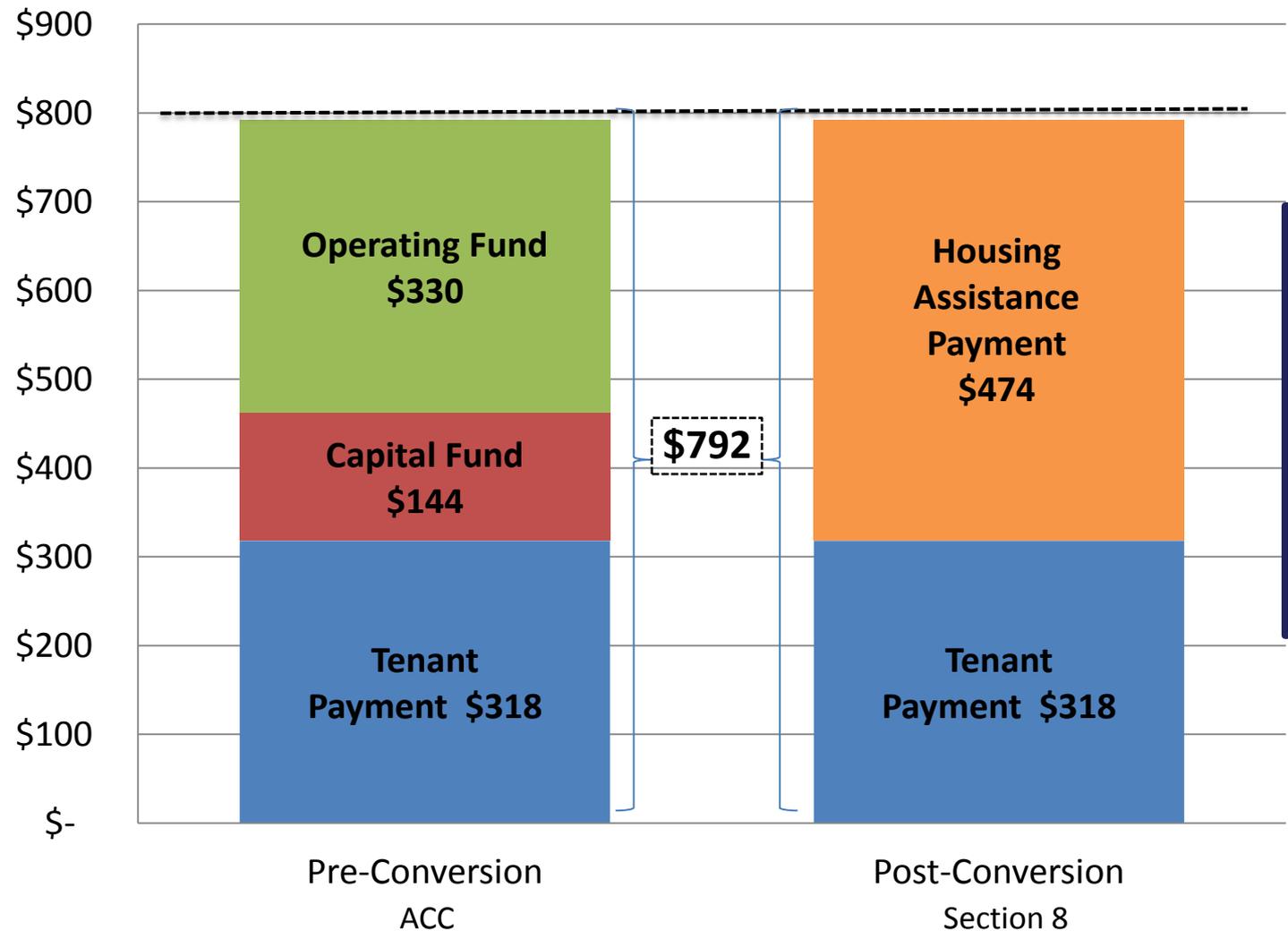
- From Application to CHAP to HAP – Processing Requirements
- Defining RAD-Eligible Projects
  - Splitting AMPs
  - When Section 18 (demo/dispo) applies
- Current Funding Allocations & Rent Setting
- Choosing between PBVs or PBRA
- Procurement
  - Predevelopment expenses
  - Loans
- Resources & Tools





# PUBLIC HOUSING CONVERSION RENT LEVELS

## Sample Public Housing Conversion Per Unit Monthly (PUM)



At conversion, PHAs will convert funding to a Section 8 contract rent.





# Current Funding Allocations & Rent Setting

## PBRA Cap

- Lower of:
  - Current funding or
  - 120% of FMR (less utility allowance)
  - EXCEPT where current funding is below market, wherein rent is limited to 150% of FMR

## PBV Cap

- Lower of:
  - Current funding
  - 110% of FMR (less utility allowance)
  - Reasonable rent





# PUBLIC HOUSING RESOURCES & TOOLS

## RAD Conversion Guide for PHAs



### **Rental Assistance Demonstration Conversion Guide for Public Housing Agencies**

This RAD Conversion Guide (Guide) is intended to assist public housing agencies (PHAs) as they prepare to apply for conversion of assistance under the Rental Assistance Demonstration (RAD) pursuant to PIH Notice 2012-32 (Notice).<sup>1</sup> Accompanying the Guide is an Excel-based RAD Inventory Assessment Tool (Tool) available on the RAD website to help PHAs conduct first-level assessments of which properties in their inventory might prove to be viable candidates for conversion of assistance under RAD. The Guide and Tool are intended only as planning aids for PHAs. In the event of any discrepancy among the Guide or Tool and the RAD Final Program Notice, the provisions of the Notice govern. For more complete information and supporting materials on RAD, visit the RAD website at [www.hud.gov/rad](http://www.hud.gov/rad).

The Guide is organized in five phases:

- (1) Planning;
- (2) Identifying RAD projects: Building a preliminary Operating Budget and a preliminary Development Budget;
- (3) Resident Protections and Choice Mobility;
- (4) Assembling Your Development Team; and
- (5) Confirming Financing Partners.

The companion Tool will be most useful in Phase 2. The process of preparing to apply for RAD is likely to be an iterative one, wherein initial judgments are later reshaped or superseded as information about a potential project develops. For example, a lender's underwriting process



# PUBLIC HOUSING RESOURCES & TOOLS

## RAD Inventory Assessment Tool for PHAs

	A	B	C	D	E	F	G	H	I
1	<b>RAD Inventory Assessment Tool for PHAs</b>								
2									
3	<b>Global Inputs (Affecting All Properties)</b>								
4									
5									
6	PHA Code	<input type="text" value="blank"/>							
7	PHA Name	Blank PHA - Start tool entry for new property							
8	Number of Properties	<input type="text" value="3"/>							
9	<div style="border: 1px solid black; padding: 5px; background-color: #e0e0e0;"> <p><b>Populate Data for All Properties For This PHA</b></p> </div>								
10	<i>Enter the following inputs, which will be applied to all projects in the PHA's inventory. Each global input can be modified for individual projects on the Inventory Overview sheet</i>								
11	<b>First Mortgage Financing Terms</b>								
12	Interest Rate	<input type="text" value="0.000%"/>	annual rate						
13	Amortization Term	<input type="text" value="0"/>	years						
14	MIP or Other Credit Enhancement	<input type="text" value="0.00%"/>	per year						
15	Debt Service Coverage Ratio	<input type="text" value="0.00"/>							
16									
17	<b>Type of Rental Assistance Contract</b>								
18	PBRA or PBVs?	<input type="text"/>							
19									
20	<b>Initial Operating Expense Assumption</b>								
21	Operating Expenses	<input type="text" value="No global input"/>							
22									





# WHAT PH RESIDENTS HAVE BEEN ASKING ABOUT?

## Resident Processes, Rights, Responsibilities

- Transposing Section 6 to Section 8

## Choice-Mobility

- PBVs
- PBRA

## PBVs

- Ability to choose income-mixing option if offered
  - Multiple choices: immediate, after 1 year
  - No involuntary displacement
- If “family property” exemption for > 50% assistance
  - Offer supportive services for mobility

## Resident Education





# PUBLIC HOUSING RESIDENT PROVISIONS

- **Resident Procedural Rights**
  - Consistent with Section 6 of the 1937 Housing Act
- **Resident Notification Prior to and During Conversion**
- **No Rescreening of Residents at Conversion**
- **One-for-One Preservation or Replacement**
  - Must convert all or substantially all units in covered project
- **Family Self-Sufficiency & Resident Opportunities and Self-Sufficiency**
  - FSS & ROSS participants may continue in programs
- **Resident Participation & Funding**
  - PHAs must recognize legitimate tenant organizations
  - PHAs must provide \$25 per occupied unit annually for resident participation per current Public Housing program rules





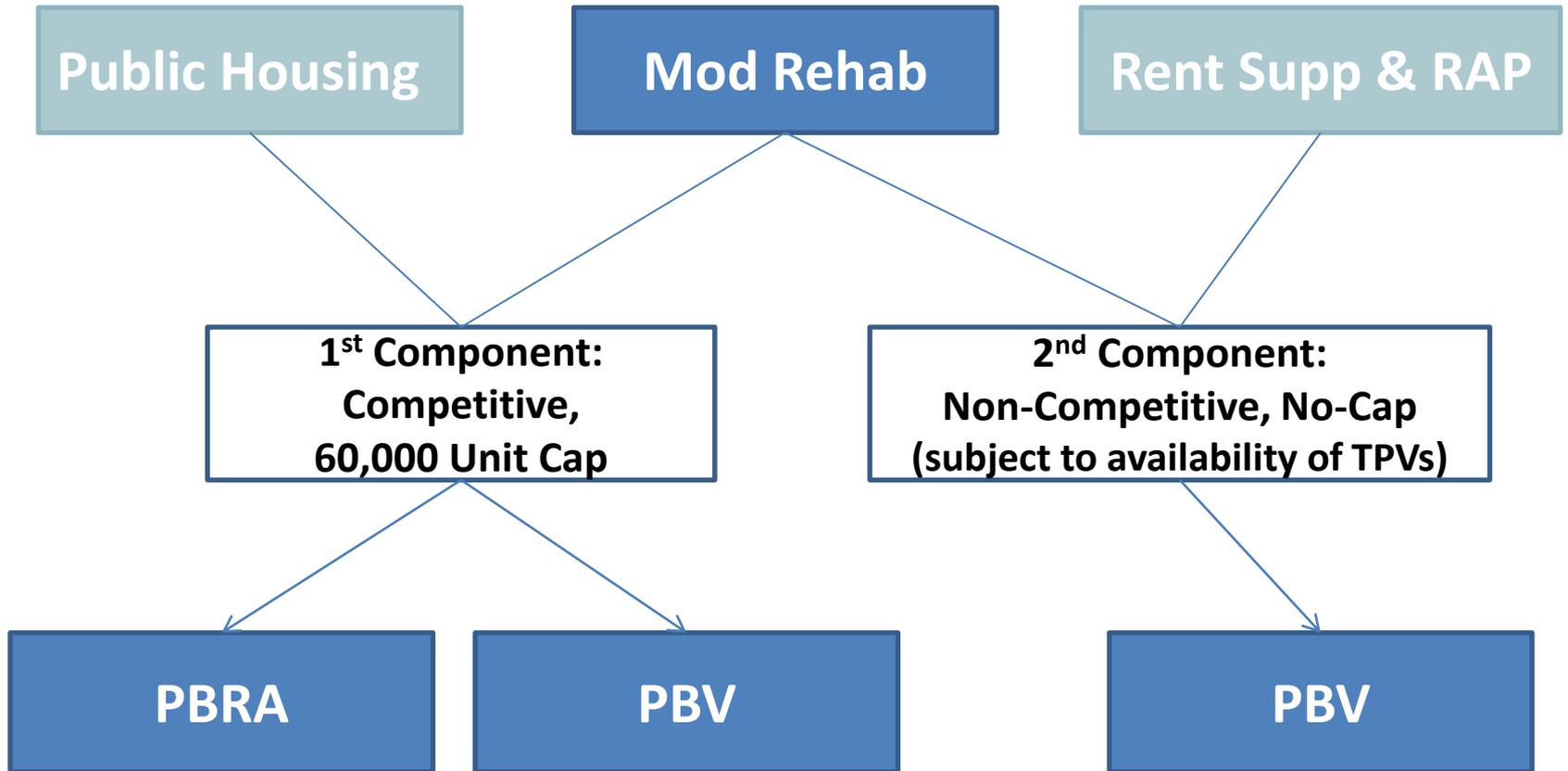
# PUBLIC HOUSING



# Q & A



# MOD REHAB - 1<sup>ST</sup> & 2<sup>ND</sup> COMPONENTS





# MOD REHAB PROVISIONS & Qs

## 1<sup>st</sup> or Competitive Component – Convert to PBRA or PBVs

- Contract Rent = Current Funding (subject to rent caps)
- Contract Term
  - PBRA – 20 yrs
  - PBV – 15 to 20 yrs
- OCAF Rent Adjustments
- Competition
- CHAP-Financing Plan-HAP
- PBV Income Mixing & Voucher Program Cap





# MOD REHAB PROVISIONS & Qs

## 2<sup>nd</sup> Component – Convert to PBVs

- Financing Plan Approval
- Contract Term: 15 years
- Contract rent determined under PBV rent requirements
- PBV rent adjustments
- Choice-Mobility
- PBV Income Mixing and Voucher Program Cap





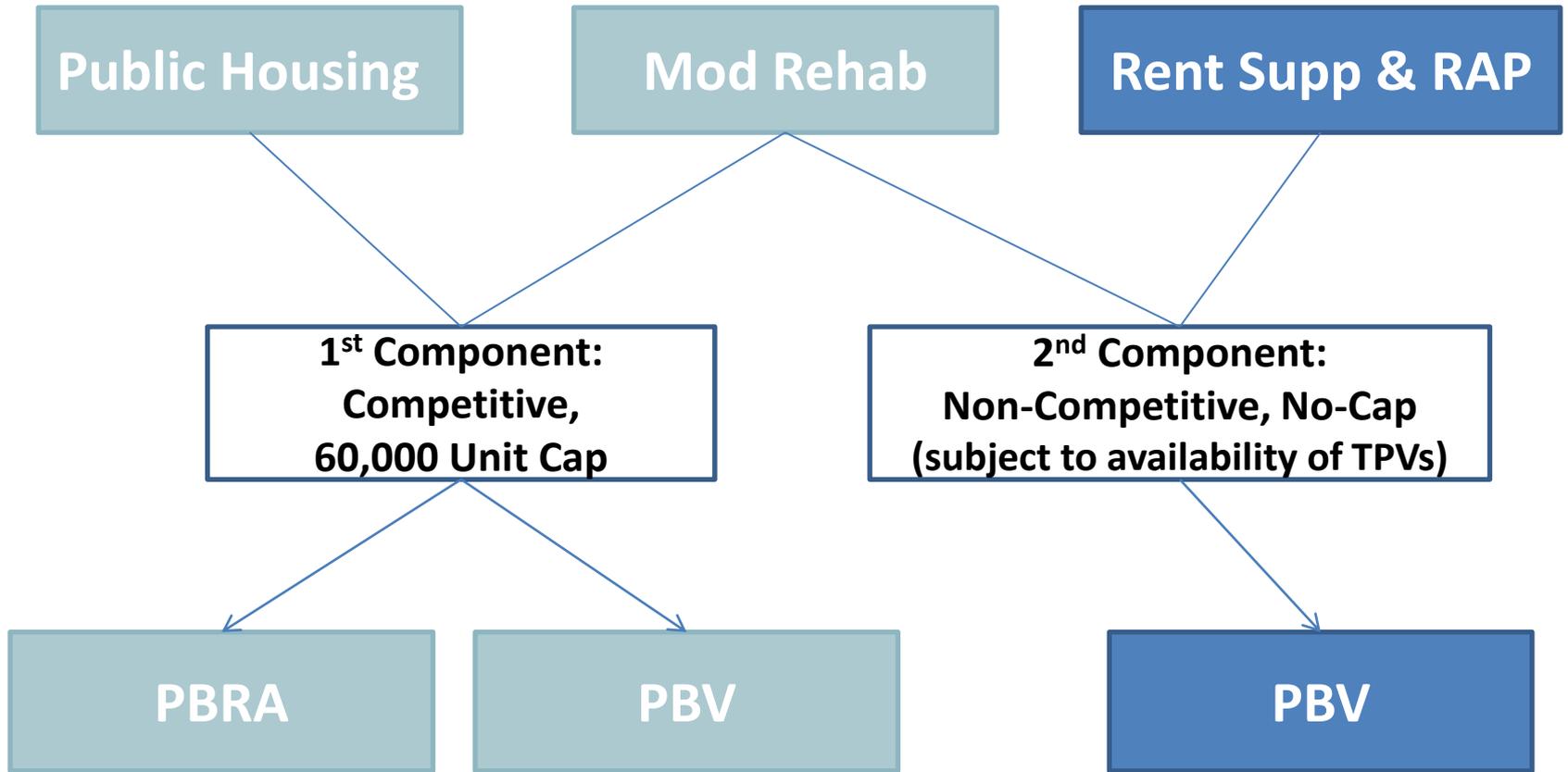
# MOD REHAB



# Q & A



# RENT SUPP/RAP - 2<sup>ND</sup> COMPONENT ONLY





# RENT SUPP/RAP ELIGIBILITY



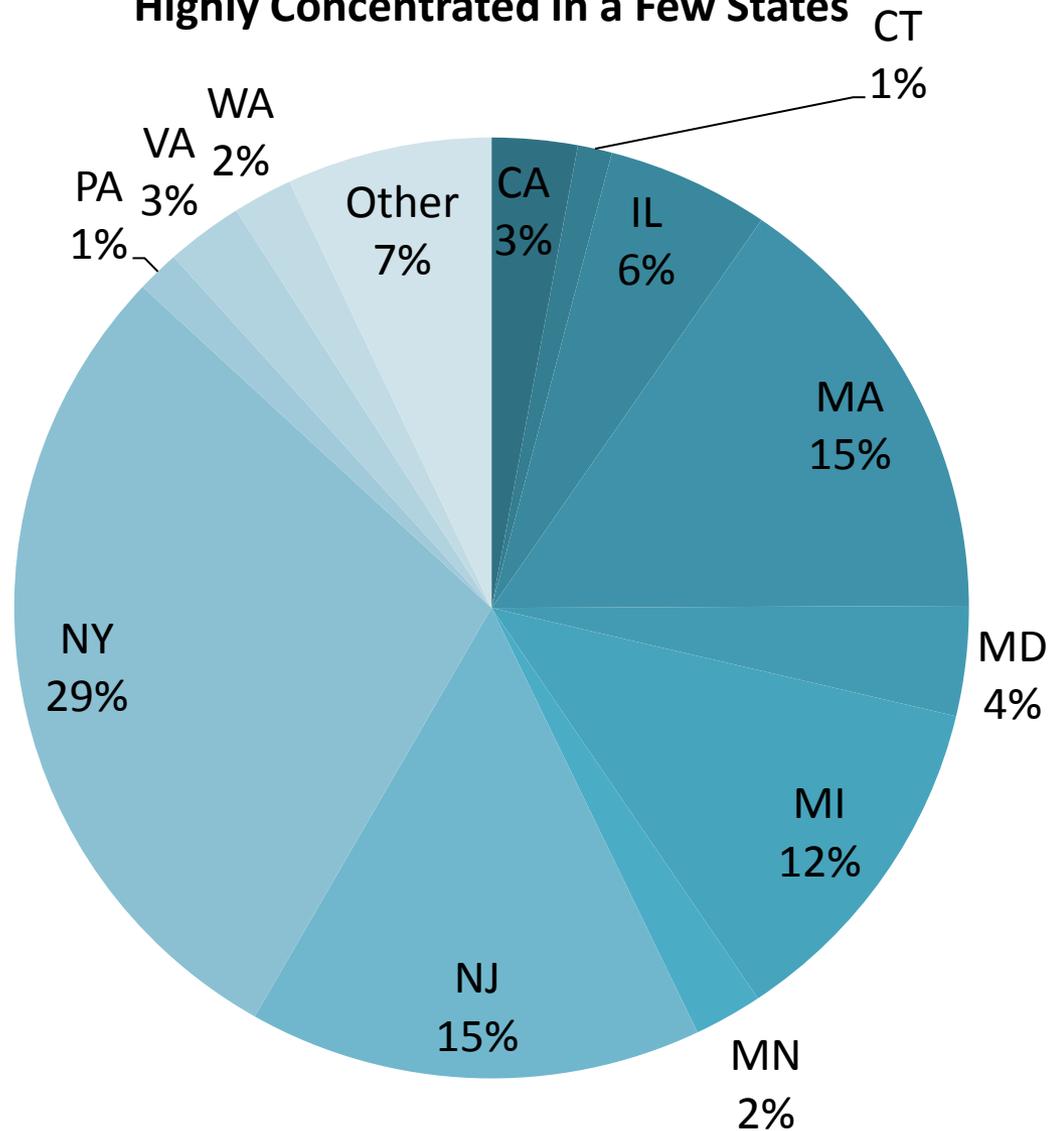
	Requirement	
	Prospective	Retroactive
<b>Eligible Properties</b>	<ul style="list-style-type: none"> <li>• Active Rent Supp or RAP contract</li> <li>• Contract expires or terminates by 9/30/2013</li> <li>• If expiration is FY14 or later, HUD will accept and prioritize by date a letter of interest from owner subject to available funds</li> </ul>	<ul style="list-style-type: none"> <li>• Previously received Rent Supp or RAP assistance</li> <li>• A triggering event (contract termination due to prepayment or contract expiration) occurred on or after 10/01/2006</li> <li>• Vouchers were provided to residents of the property as a result of the triggering event</li> </ul>
<b>Eligible Units</b>	<ul style="list-style-type: none"> <li>• <b>Rent Supp or RAP contract units:</b> Original contract units occupied in 24 months prior to contract expiration or termination</li> <li>• <b>Unassisted:</b> Eligible in RAD conversion if EVs would be provided to unassisted residents due to qualifying preservation-eligible mortgage prepayment</li> </ul>	<ul style="list-style-type: none"> <li>• Units occupied by income-eligible households with TPVs from mortgage prepayment or contract expiration</li> </ul>



# GEOGRAPHY OF RENT SUPP/RAP PROPERTIES



Highly Concentrated in a Few States





# RENT SUPP/RAP



# Q & A



# RAD FINANCING

## Debt

- Conventional
- Secondary
- FHA
  - FHA Streamlining
  - LIHTC Pilot

## LIHTCs

- 9% considerations
- 4% issues
  - 50% test
  - Bonds: T-E, PHA-PABs, private placement

## RAD Capital Marketplace

- [www.radcapitalmarketplace.com](http://www.radcapitalmarketplace.com)





# FHA MULTIFAMILY MORTGAGE INSURANCE

## Section 223(f)

- Refinance or acquisition
- Minor/moderate repairs (\$6,500/unit\*high cost factor)
- Permanent debt with repair escrow - up to 35 years
- 90% rental assistance: DSC 1.15; Loan to Value: 87%
- Affordable: DSC 1.176; Loan to Value: 85%

## Section 221(d)(4)

- Substantial rehab: 2 major building systems
- Construction/permanent debt all in one - initial/final closing
- 40-year financing
- 90% rental assistance: DSC 1.11; Loan to Cost: 90%
- Affordable DSC 1.15 Loan to Cost: 87%

## Market Interest Rates – Historically Low



# FHA LIHTC PILOT PROGRAM

## Objective

Increase FHA's affordable housing production by completing FHA loan processing in 120 Days, from application to closing

## Approach

- Senior staff as designated underwriters at each Pilot Hub
- Revamped Process – Not linear with multiple experts, but all review done by designated underwriter
- Use of only one FHA program adapted for use with tax credits: 223(f)





# FHA LIHTC PILOT PROGRAM

## 3 Project Types

- Acquisition and/or refinancing with moderate rehabilitation for developments with 90% PBRA (includes RAD projects)
- Permanent financing of newly built or substantially rehabilitated projects (3-year rule waiver projects)
- Permanent financing and moderate rehabilitation of stabilized tax credit projects being re-syndicated with new tax credits





# FHA LIHTC PILOT PROGRAM

## Eligible Projects: Other Requirements

- Tax credit or Bond Cap allocation in hand
- Located within selected Pilot Hub areas (or in the case of RAD projects, underwritten in an assigned Pilot Hub)
- Using MAP lender approved for the Pilot
- Low risk, meeting sustaining occupancy requirements
- Eligible for 223(f) Loan program, adapted to the Pilot program: Highlight is allowance for rehab expenditures of up to \$40,000/unit





# FHA LIHTC PILOT PROGRAM

## Contact Information

Project documentation posted on the MAP page at:

[http://portal.hud.gov/hudportal/HUD?src=/program\\_offices/housing/mfh/map/maphome/taxcredit](http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/mfh/map/maphome/taxcredit)

Questions? Please contact:

Lynn Wehrli

(202) 402-5210

[lynn.wehrli@hud.gov](mailto:lynn.wehrli@hud.gov)





# UPCOMING RAD EVENTS

- Region IV Mixed-Finance/RAD Workshop  
Panama City, August 29-30, 2012 **(POSTPONED DUE TO WEATHER)**
- Making a RAD Deal Work  
Chicago, September 6-7, 2012
- Kentucky Housing Association Annual Conference  
Louisville, September 17, 2012

Find more and updated information on the RAD web page at [www.hud.gov/rad](http://www.hud.gov/rad) under the Events section





# RAD CAPITAL MARKETPLACE

[www.radcapitalmarketplace.com](http://www.radcapitalmarketplace.com)

## RAD Capital Marketplace

Welcome to the Rental Assistance Demonstration Capital Marketplace (RAD Capital Marketplace). The site is designed to encourage contact and information sharing among housing authorities (PHAs) and multifamily owners considering a RAD conversion and the lenders, investors, development partners, financial intermediaries, professional financing advisors, consultants, that offer services and products that PHAs and owners may wish to use in preparing their application and/or financing plan.

The site has been developed collaboratively by [National Equity Fund, Inc.](#) (NEF), [Council for Large Public Housing Agencies](#) (CLPHA) and [Enterprise Community Investment, Inc.](#) One of the goals of RAD (Notice PIH-2012-32) is to demonstrate how the conversion of current assistance to long-term project-based Section 8 rental assistance contracts can generate access to private debt and equity to address immediate and long-term capital needs of the public housing stock and Rent Supp, RAP and Section 8 Mod Rehab multifamily housing at risk from being lost from the affordable stock. The Initial Application Period for the limited, competitive component of RAD for public housing and Mod Rehab properties opens on September 24, 2012 and closes October 24, 2012. Owners of eligible Rent Supp, RAP and Mod Rehab properties may submit conversion requests for Section 8 Project Based Vouchers only on a rolling basis. Program rules and application instructions are outlined in the Notice, which can be found on the RAD webpage: [www.hud.gov/rad](http://www.hud.gov/rad)

If you would like to post your information please choose the type of Entity that you are

- PHA/Owner
- Lender
- Investor/Syndicator
- Consultant/TA
- Developer/Co-Developer



Search

Search by company type:

Search by State:



# DISCUSSION WITH Q&A

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- **In-Person Qs**

- **Webcast-submitted Qs**



# KEY DATES



## 1<sup>st</sup> Component (Public Housing & Mod Rehab)

Initial Application Window Opens	9/24/2012
Initial Application Window Closes	10/24/2012
Public Housing Ongoing Application Window Opens	10/25/2012
Initial CHAP Awards	10/2012

## 2<sup>nd</sup> Component (Mod Rehab, Rent Supp, & RAP)

Rent Supp/RAP Requests for Conversions Under Interim Authority	3/8/2012
Rent Supp/RAP/Mod Rehab Requests for Conversions Under Final Notice	7/26/2012



# RAD WEB PAGE

RAD Notice, application materials, and additional resources can be found at

[www.hud.gov/rad](http://www.hud.gov/rad)

Email questions to [rad@hud.gov](mailto:rad@hud.gov)

